

SAN FRANCISCO COMMUNITY COLLEGE DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

Chapter 961, Statutes of 1975,
and Chapter 1213, Statutes of 1991

July 1, 1998, through June 30, 2001



STEVE WESTLY
California State Controller

October 2003



STEVE WESTLY
California State Controller

October 24, 2003

Philip R. Day Jr., Ph.D., Chancellor
San Francisco Community College District
33 Gough Street
San Francisco, CA 94103

Dear Dr. Day:

The State Controller's Office (SCO) has completed an audit of the claims filed by the San Francisco Community College District for costs of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 1998, through June 30, 2001.

The district claimed and was paid \$1,147,155 for the mandated program. Our audit disclosed that \$1,064,169 is allowable and \$82,986 is unallowable. The unallowable costs occurred because the district claimed unsupported and ineligible costs and incorrectly calculated its indirect cost rate. The amount paid in excess of allowable costs claimed, totaling \$82,986, should be returned to the State.

The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documentation should be submitted to: Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

WALTER BARNES
Chief Deputy State Controller, Finance

WB:jj/ams

cc: (See page 2)

cc: Peter Goldstein

Vice Chancellor of Administration and Finance
San Francisco Community College District

Steve Hale

Employee Relations Manager
San Francisco Community College District

Calvin Smith, Program Budget Manager
Corrections and General Government
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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by San Francisco Community College District for costs of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 1998, through June 30, 2001. The last day of fieldwork was January 31, 2003, except Finding 3, for which the last date of fieldwork was June 26, 2003.

The district claimed and was paid \$1,147,155 for the mandated program. The audit disclosed that \$1,064,169 is allowable and \$82,986 is unallowable. The unallowable costs occurred because the district claimed unsupported and ineligible costs and incorrectly calculated its indirect cost rate. The amount paid in excess of allowable costs claimed, totaling \$82,986, should be returned to the State.

Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board (PERB) to issue formal interpretations and rulings regarding collective bargaining under the Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining. On July 17, 1978, the Board of Control ruled that the Rodda Act imposed a reimbursable state mandate upon school districts reimbursable under *Government Code* (GC) Section 17561.

In 1991, the State enacted Chapter 1213, Statutes of 1991, which requires that school districts publicly disclose major provisions of collective bargaining effort before the agreement becomes binding. On August 20, 1998, the Commission on State Mandates (formerly the Board of Control) ruled that this legislation also imposed a state mandate upon school districts reimbursable under GC Section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven components are as follows:

- G1-Determining bargaining units and exclusive representative
- G2-Election of unit representative
- G3-Costs of negotiations
- G4-Impasse proceedings
- G5-Collective bargaining agreement disclosure
- G6-Contract administration
- G7-Unfair labor practice charges

Parameters and Guidelines, adopted by the Commission on State Mandates, establishes the state mandate and defines criteria for reimbursement. In compliance with GC Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 1998, through June 30, 2001.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's management controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are shown on the Summary of Program Costs (Schedule 1) and described in the Findings and Recommendations section of this report.

For fiscal year (FY) 1998-99, the district was paid \$562,138 by the State. The audit disclosed that \$498,643 is allowable. The amount paid in excess of allowable costs claimed, totaling \$63,495, should be returned to the State.

For FY 1999-2000, the district was paid \$369,475 by the State. The audit disclosed that \$350,924 is allowable. The amount paid in excess of allowable costs claimed, totaling \$18,551, should be returned to the State.

For FY 2000-01, the district was paid \$215,542 by the State. The audit disclosed that \$214,602 is allowable. The amount paid in excess of allowable costs claimed, totaling \$940, should be returned to the State.

**Views of
Responsible
Officials**

The SCO issued a draft audit report on August 29, 2003. Through a telephone conversation on September 29, 2003, John Bilmont, Controller, stated that the district will not respond to the draft report.

Restricted Use

This report is solely for the information and use of San Francisco Community College District, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2001

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
Components G1 through G3:				
Salaries and benefits	\$ 292,220	\$ 291,351	\$ (869)	Finding 1
Contract services	<u>133,596</u>	<u>118,154</u>	<u>(15,442)</u>	Finding 2
Subtotals	425,816	409,505	(16,311)	
Less adjusted base-year direct costs	<u>(94,447)</u>	<u>(94,447)</u>	<u>—</u>	
Increased direct costs, G1 through G3	<u>331,369</u>	<u>315,058</u>	<u>(16,311)</u>	
Components G4 through G7:				
Salaries and benefits	118,029	95,063	(22,966)	Finding 1
Contract services	<u>31,670</u>	<u>27,120</u>	<u>(4,550)</u>	Finding 2
Increased direct costs, G4 through G7	<u>149,699</u>	<u>122,183</u>	<u>(27,516)</u>	
Total increased direct costs G1 through G7	481,068	437,241	(43,827)	
Indirect costs	<u>81,070</u>	<u>61,402</u>	<u>(19,668)</u>	Findings 1, 3
Total costs	<u>\$ 562,138</u>	498,643	<u>\$ (63,495)</u>	
Less amount paid by the State		<u>(562,138)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (63,495)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Components G1 through G3:				
Salaries and benefits	\$ 227,027	\$ 222,354	\$ (4,673)	Finding 1
Contract services	<u>116,305</u>	<u>116,305</u>	<u>—</u>	
Subtotals	343,332	338,659	(4,673)	
Less adjusted base-year direct costs	<u>(94,447)</u>	<u>(94,447)</u>	<u>—</u>	
Increased direct costs, G1 through G3	<u>248,885</u>	<u>244,212</u>	<u>(4,673)</u>	
Components G4 through G7:				
Salaries and benefits	55,188	52,814	(2,374)	Finding 1
Contract services	<u>20,338</u>	<u>18,043</u>	<u>(2,295)</u>	Finding 2
Increased direct costs, G4 through G7	<u>75,526</u>	<u>70,857</u>	<u>(4,669)</u>	
Total increased direct costs G1 through G7	324,411	315,069	(9,342)	
Indirect costs	<u>45,064</u>	<u>35,855</u>	<u>(9,209)</u>	Findings 1, 3
Total costs	<u>\$ 369,475</u>	350,924	<u>\$ (18,551)</u>	
Less amount paid by the State		<u>(369,475)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (18,551)</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference</u> ¹
<u>July 1, 2000, through June 30, 2001</u>				
Components G1 through G3:				
Salaries and benefits	\$ 89,728	\$ 89,656	\$ (72)	Finding 1
Contract services	58,415	58,415	—	
Subtotals	148,143	148,071	(72)	
Less adjusted base-year direct costs	(101,412)	(101,412)	—	
Increased direct costs, G1 through G3	46,731	46,659	(72)	
Components G4 through G7:				
Salaries and benefits	62,968	62,949	(19)	Finding 1
Contract services	94,561	94,561	—	
Increased direct costs, G4 through G7	157,529	157,510	(19)	
Total increased direct costs G1 through G7	204,260	204,169	(91)	
Indirect costs	11,282	10,433	(849)	Findings 1, 3
Total costs	<u>\$ 215,542</u>	214,602	<u>\$ (940)</u>	
Less amount paid by the State		(215,542)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (940)</u>		
<u>Summary: July 1, 1998, through June 30, 2001</u>				
Components G1 through G3:				
Salaries and benefits	\$ 608,975	\$ 603,361	\$ (5,614)	Finding 1
Contract services	308,316	292,874	(15,442)	Finding 2
Subtotals	917,291	896,235	(21,056)	
Less adjusted base-year direct costs	(290,306)	(290,306)	—	
Increased direct costs, G1 through G3	626,985	605,929	(21,056)	
Components G4 through G7:				
Salaries and benefits	236,185	210,826	(25,359)	Finding 1
Contract services	146,569	139,724	(6,845)	Finding 2
Increased direct costs, G4 through G7	382,754	350,550	(32,204)	
Total increased direct costs G1 through G7	1,009,739	956,479	(53,260)	
Indirect costs	137,416	107,690	(29,726)	Findings 1, 3
Total costs	<u>\$1,147,155</u>	1,064,169	<u>\$ (82,986)</u>	
Less amount paid by the State		(1,147,155)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (82,986)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries, benefits, and related indirect costs

The district claimed unallowable salary and benefit costs of \$30,973. The related indirect costs total \$7,829. Salary and benefit costs are unallowable for the following reasons:

Component G3—Cost of Negotiation

- The district was unable to provide supporting documentation for \$554 (25.5 hours) claimed in FY 1998-99 and \$382 (5.25 hours) claimed in FY 1999-2000.
- The district claimed employee benefits related to salaries of substitute teachers, totaling \$315 in FY 1998-99, \$518 in FY 1999-2000, and \$72 in FY 2000-01. However, the district does not pay benefits to substitutes.
- The district claimed more than the allowable five employer representatives for nine negotiation sessions in FY 1999-2000. These negotiation sessions were held between October 18, 1999, and May 4, 2000. Unallowable costs claimed totaled \$3,773.

Component G4—Impasse Proceedings

- The district claimed more than the allowable five employer representatives for three separate mediation sessions in FY 1998-99. These mediation sessions were held August 17, August 26, and August 28, 1998. Unallowable costs claimed totaled \$5,992.
- The district was unable to provide supporting documentation for \$452 (6.5 hours) claimed in FY 2000-01.

Component G6—Contract Administration

- The district claimed unsupported management training costs, totaling \$16,522 (248 hours) in FY 1998-99 and \$2,374 (33.25 hours) in FY 1999-2000. The district was unable to show that only allowable topics were discussed during training. Documentation provided indicated that strike, budget, and update/information items were discussed.
- The district was unable to provide supporting documentation for \$19 (0.25 hours) claimed in FY 2000-01.

Elements/Components	Fiscal Year			Total
	1998-99	1999-2000	2000-01	
Salary and benefit costs:				
G1 through G3	\$ (869)	\$ (4,673)	\$(30,172)	\$(5,614)
G4 through G7	<u>(22,966)</u>	<u>(2,374)</u>	<u>(19)</u>	<u>(25,359)</u>
Totals	<u>\$(23,835)</u>	<u>\$ (7,047)</u>	<u>\$ (91)</u>	<u>\$(30,973)</u>
Indirect costs:				
G1 through G7	<u>\$ (6,118)</u>	<u>\$ (1,691)</u>	<u>\$ (20)</u>	<u>\$(7,829)</u>

Parameters and Guidelines for the Collective Bargaining Program, issued by the Commission on State Mandates on August 25, 1998, states that a maximum of five public school employer representatives per unit, per negotiation session, are eligible for reimbursement. Similarly, a maximum of five public school employer representatives are eligible for mediation sessions.

Parameters and Guidelines provides for seven reimbursable components, as described in the Background section of this report. Strike-related activities are outside the scope of allowable mandate costs. In addition, *Parameters and Guidelines* states that training sessions held for supervisory and management personnel on contract administration/interpretation are reimbursable. However, contract interpretations at staff meetings, and personal development and informational programs, are not reimbursable.

Recommendation

The district should ensure all costs claimed are supported by source documentation. In addition, the district should ensure costs claimed are allowable under *Parameters and Guidelines*.

FINDING 2— Unallowable contract services costs claimed

The district claimed unallowable contract services costs totaling \$22,287. Unallowable costs claimed were for activities that are not reimbursable under the Collective Bargaining program as follows:

Component G3—Cost of Negotiation

- The district claimed \$15,442 in FY 1998-99 for employee strike-related issues.

Component G6—Contract Administration

- The district claimed \$4,550 in FY 1998-99 for employee strike-related issues.
- The district claimed \$2,295 in FY 1999-2000 for consultants to attend management training sessions. As noted in Finding 1, the district was unable to show that only allowable topics were discussed during training. Documentation provided indicated that strike, budget, and update/information items were discussed.

Parameters and Guidelines for the Collective Bargaining program provides for seven reimbursable components, as described in the Background section of this report. Strike-related activities are outside the scope of the mandate. In addition, *Parameters and Guidelines* states that training sessions held for supervisory and management personnel on contract administration/interpretation are reimbursable. However, contract interpretations at staff meetings, and personal development and informational programs, are not reimbursable.

Elements/Components	Fiscal Year			Total
	1998-99	1999-2000	2000-01	
Contract services costs:				
G1 through G3	\$(15,442)	\$ —	\$ —	\$(15,442)
G4 through G7	—	(4,550)	(2,295)	(6,845)
Totals	<u>\$(15,442)</u>	<u>\$ (4,550)</u>	<u>\$ (2,295)</u>	<u>\$(22,287)</u>

Recommendation

The district should ensure all costs are for allowable activities within the scope of the Collective Bargaining program, as identified in *Parameters and Guidelines*.

FINDING 3— Unallowable indirect costs claimed

Indirect cost rate proposals submitted by the district incorrectly classified various direct cost categories as indirect costs. In addition, the district incorrectly classified direct costs claimed under this mandate as indirect costs. Thus, indirect cost rates were overstated. The overstated indirect cost rates resulted in unallowable costs claimed totaling \$21,897.

The district calculated indirect cost rates using SCO's FAM-29C form, an option provided by *Parameters and Guidelines*. However, the district incorrectly classified the following groups of accounts as indirect costs: Community Relations, Staff Services, Community Services, Ancillary Services, and Auxiliary Operations. In addition, the district did not reclassify Collective Bargaining program costs from indirect to direct costs.

The district claimed indirect costs based on indirect cost rates of 25.671%, 24%, and 22% for FY 1998-99, FY 1999-2000, and FY 2000-01, respectively. Based on the above adjustments, the allowable indirect cost rates for these fiscal years are 21.03%, 19.84%, and 20.38%, respectively.

Parameters and Guidelines states that community college districts may use one of three alternatives to claim indirect costs: (1) a federally-approved rate based on Office of Management and Budget Circular A-21; (2) The State Controller's FAM-29C form; or (3) 7%. The instructions for SCO's FAM-29C form state that the following groups of accounts should be classified as direct costs: Community Relations, Staff Services, Community Services, Ancillary Services, and Auxiliary Operations. In addition, the FAM-29C instructions also state that mandate costs claimed that are included in the Planning and Policy

Making, Fiscal Operations, General Administrative Services, or Logistical Services accounts should be classified as direct costs.

<u>Element</u>	<u>Fiscal Year</u>			<u>Total</u>
	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	
Indirect costs	<u>\$(13,550)</u>	<u>\$ (7,518)</u>	<u>\$ (829)</u>	<u>\$(21,897)</u>

Recommendation

The district should ensure that its indirect cost rate proposals comply with instructions shown on the FAM-29C form.

**State Controller's Office
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<http://www.sco.ca.gov>